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C O N F I D E N T I A L SECTION 01 OF 02 YEREVAN 000812

SIPDIS

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SUBJECT: AMBASSADOR'S INTRODUCTORY CALL ON PRIME MINISTER

Classified By: Marie L. Yovanovich. Reason 1.4 (b/d)

SUMMARY

[11](#). (C) Ambassador's introductory meeting with Prime Minister Tigran Sargsian on October 3 included discussion of the PM's ambitious reform agenda, particularly in the area of tax and customs. Sargsian also made the surprising announcement that he would not be making his long-planned visit to Washington DC during the week of October 6 for the World Bank/IMF annual meetings. However, the following day we learned that he had reversed that decision and would be going to Washington after all. The PM also insisted that political detainees will be adjudicated in a fair and transparent manner, and claimed no knowledge of the GOAM's efforts to expel Western Union from the country. End Summary.

[12](#). (C) Ambassador met with Prime Minister Tigran Sargsian October 3 for an introductory courtesy call. The PM greeted Ambassador warmly and emphasized repeatedly his admiration for the United States and its people, gratitude for the assistance and support provided to Armenia over many years and his desire for a productive relationship with the USG.

DC TRIP OFF...THEN ON AGAIN

[13](#). (C) PM Sargsian delivered the surprising news that he would not be going to Washington DC during the week of October 6, for the IMF/World Bank meetings. He explained that the purpose of the trip had been obviated by his meetings earlier in the week with the World Bank regional director from Washington, where they had resolved most current issues. In addition, he had hoped to conduct a business forum in cooperation with the World Bank during his visit, but the World Bank resident representative had indicated that this was not a good time for such an event. However, the following day, after news that Vice President Cheney had agreed to meet Sargsian reached the GOAM, we learned that he had changed his mind yet again and would make the trip after all.

[14](#). (C) Sargsian noted his interest in the status of Armenia's Millennium Challenge compact, and he expressed hope that the MCC Board will make a favorable decision on Armenia's status during its December meeting. He expressed some optimism that MCC will restore fully MCC funding for Armenia, given the favorable signals President Sargsian received during his visit to New York and his meeting with Ambassador Danilovich. Ambassador indicated that the GOAM's decision to continue the MCC project with its own funding this year was well received in Washington, and that we hope to see conditions in Armenia that would justify full resumption of MCC funding.

TAX AND CUSTOMS REFORM UNDERLIES ALL

[15](#). (C) Sargsian spoke at length about his reform efforts,

which include eliminating corruption, building a civil society and ensuring basic freedoms. He believes that the key to addressing all of these lies in reform of the notoriously corrupt tax and customs services, which were recently merged into a single State Revenue Committee. As part of the GOAM's effort to root out corruption and incompetence in this sphere, the GOAM is currently training about 500 persons who will join the State Revenue Committee when they complete their training. He hopes to bring about a change in the management culture of the organization as well, with an emphasis on risk-based controls. He hopes to be able to carry out these reforms within the next three years, but lamented that today there is still considerable resistance to reform from vested interests, and this resistance undermines Armenia's statehood.

¶16. (C) Sargsian outlined a number of what he characterized as irreversible steps, taken in part to satisfy the terms of its IMF framework agreement. In addition to tax and customs reform (including refunds of Value-Added Taxes (VAT) owed to exporters), these include an e-governance initiative which should improve the efficiency and transparency of government operations and reduce corruption opportunities; a self-declaration system for personal income taxes similar to that used by most U.S. taxpayers; new conflict of interest guidelines for government employees; and introduction of compliance officers in government agencies.

¶17. (C) One of the key tax reforms will involve bringing many retail markets into the reported economy, with the mandatory introduction of cash registers. There are approximately 300 shopping markets in Armenia populated by small vendors

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operating on a cash basis with few records, which serve as outlets for large-scale distributors. Without cash registers, the GOAM has been unable to measure--and therefore tax--the earnings of the market operators and wholesalers. Sargsian insists that the GOAM will place emphasis on pursuing large businesses rather than individual vendors. (Note: The GDP's tax/GDP ratio of 16.1 percent in 2007 was the lowest among CIS countries, and the GOAM's tax-reform initiative, until recently supported by USAID, aims to increase this ratio over the next few years. End Note).

POLITICAL FREEDOMS, AND DETAINEES

¶18. (C) Ambassador raised USG concerns about the continued detention of political opponents, as well as restrictions on political demonstrations and electronic media. Ambassador noted that detainees have been jailed for a number of months now, and while rushed justice is flawed, so is delayed justice, and therefore the GOAM should move cases forward in a fair, transparent, and deliberate manner. The GOAM should also be concerned about the fact that these detentions affect the country's image abroad, and that releasing detainees and restoring media freedoms and rights of public assembly would help advance the PM's reform agenda.

¶19. (C) Sargsian asserted that detainees are charged with violating the law, and are undergoing judicial processes that are open and transparent, observed by a wide range of foreign governments and international organizations. He further asserted that with defendants able to appeal their verdicts to the European Court of Human Rights (ECHR), it would be foolish for judges to issue political verdicts rather than rule on the merits of the case, only to see the ECHR overturn those decisions. Sargsian also cited as an example of the GOAM's good faith its agreement with the European Parliament to create a fact-finding group to investigate the events of March 1, a step that will enhance the credibility of the process.

WESTERN UNION

¶10. (C) Ambassador raised the case of Western Union, which has been ordered by the Central Bank of Armenia to cease its operations in Armenia after acceding to demands from the Azerbaijan government to stop running its Nagorno-Karabakh operations out of Armenia. PM Sargsian indicated he had no knowledge of the case, as it "doesn't rise to his level." However, he proceeded to say that from his experience as Chairman of the Central Bank, he knows that most Central Bank chairmen in Europe have a negative opinion of Western Union, ostensibly due to the company's failure to combat money laundering. He also suggested that Western Union is not a U.S. company, which the Ambassador assured that it is. Ambassador asked for the PM's assistance in finding a way for Western Union to be able to continue operating in Armenia; if the firm is forced out, it would have a negative impact on the investment climate. The PM indicated that he will look into the issue.

COMMENT

¶11. (C) While his responses to the issue of political detainees are not what they should be, we still consider Prime Minister Sargsian firmly in the reform camp. He is a well-regarded technocrat, who performed well as Central Bank Chairman, is a good interlocutor and understands the concepts we seek to put forward to the GOAM. His appointment as PM seemed to suggest that President Sargsian was willing to pursue reform in at least some parts of the government. The Washington visit should present a good opportunity for him to make the case for Armenia as well as to receive USG support for his reform efforts. It is also an opportunity for Washington to praise Sargsian's forward movement on economic reform, and raise concerns about the lack on progress on democratic reform. End Comment.
YOVANOVITCH